

**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jim Nickell, Rowan County Judge/Executive

Honorable Clyde A. Thomas, Former Rowan County Judge/Executive

Members of the Rowan County Fiscal Court

## Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rowan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Rowan County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include the financial data of the Rowan County Extension Board, an entity that meets the criteria to be reported as a discretely presented component unit of Rowan County, Kentucky, in accordance with accounting principals generally accepted in the United States of America.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the discretely presented component unit of Rowan County, KY as of June 30, 2007 or the changes in financial position thereof for the year then ended.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rowan County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Rowan County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007, on our consideration of the Rowan County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rowan County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

December 20, 2007

## ROWAN COUNTY OFFICIALS

For The Year Ended June 30, 2007

### Fiscal Court Members:

Jim Nickell	County Judge/Executive
Ray White	Magistrate
Jerry Flannery	Magistrate
Troy Perkins	Magistrate
Nick Caudill	Magistrate

### Other Elected Officials:

William W. Roberts	County Attorney
Don Hall	Jailer
Jean W. Bailey	County Clerk
Jim Barker	Circuit Court Clerk
Jack Carter	Sheriff
C.J. Baker	Property Valuation Administrator
John P. Northcutt	Coroner

### Appointed Personnel:

Kerry M. Jessee	County Treasurer
Charles Stansbury	Occupational Tax Collector
Mary Ann Stevens	Finance Officer

ROWAN COUNTY  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

**ROWAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 330,569	\$ 18,676	\$ 349,245
Assets Held for Sale	276,879		276,879
Total Current Assets	607,448	18,676	626,124
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	149,518		149,518
Land and Land Improvements	4,338,917		4,338,917
Buildings	5,713,341		5,713,341
Other Equipment	1,215,154		1,215,154
Vehicles and Equipment	441,374	17,540	458,914
Infrastructure Assets - Net of Depreciation	1,189,119		1,189,119
Total Noncurrent Assets	13,047,423	17,540	13,064,963
Total Assets	13,654,871	36,216	13,691,087
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	350,000		350,000
Financing Obligations Payable	546,879		546,879
Total Current Liabilities	896,879		896,879
Noncurrent Liabilities:			
Bonds Payable	1,335,000		1,335,000
Financing Obligations Payable	1,469,920		1,469,920
Total Noncurrent Liabilities	2,804,920		2,804,920
Total Liabilities	3,701,799		3,701,799
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	9,622,503	17,540	9,640,043
Restricted For:			
Capital Projects	63,520		63,520
Unrestricted	267,049	18,676	285,725
Total Net Assets	\$ 9,953,072	\$ 36,216	\$ 9,989,288

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June, 30 2007



**ROWAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,173,607	\$ 1,292	\$ 642,695	\$ 122,013
Protection to Persons and Property	2,515,583	1,498,044	342,441	534,284
General Health and Sanitation	211,648		179,891	
Social Services	62,565			
Recreation and Culture	176,215			
Roads	1,378,331		1,174,271	
Debt Service	209,619			
Capital Projects	113,582			
Total Governmental Activities	7,841,150	1,499,336	2,339,298	656,297
Business-type Activities:				
Jail Canteen	105,471	103,917		
Total Business-type Activities	105,471	103,917		
Total Primary Government	\$ 7,946,621	\$ 1,603,253	\$ 2,339,298	\$ 656,297

**General Revenues:**

Taxes:

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Bank Deposit Franchise Taxes  
Corporation Franchise Taxes  
Profit and Occupational Taxes  
Deed Transfer Taxes  
In Lieu Taxes  
Excess Fees  
License and Permits  
Unrestricted Investment Earnings  
General Revenue  
Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
For The Year Ended June 30, 2007  
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,407,607)	\$	\$ (2,407,607)
(140,814)		(140,814)
(31,757)		(31,757)
(62,565)		(62,565)
(176,215)		(176,215)
(204,060)		(204,060)
(209,619)		(209,619)
(113,582)		(113,582)
(3,346,219)		(3,346,219)
	(1,554)	(1,554)
	(1,554)	(1,554)
(3,346,219)	(1,554)	(3,347,773)
455,749		455,749
56,982		56,982
88,902		88,902
25,467		25,467
45,745		45,745
2,745,604		2,745,604
49,599		49,599
187,821		187,821
101,010		101,010
147,693		147,693
39,557		39,557
6,718		6,718
282,757		282,757
4,233,604		4,233,604
887,385	(1,554)	885,831
9,065,687	37,770	9,103,457
\$ 9,953,072	\$ 36,216	\$ 9,989,288

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

**ROWAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2007

	General Fund	Road Fund	Jail Fund	Community Development Block Grant	Local Government Economic Development Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 22,081	\$ 2,810	\$ 4,579	\$ 22,013	\$ 63,520
Total Assets	<u>\$ 22,081</u>	<u>\$ 2,810</u>	<u>\$ 4,579</u>	<u>\$ 22,013</u>	<u>\$ 63,520</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 3,107	\$ 12,932	\$	\$	\$
Unreserved:					
General Fund	18,974				
Special Revenue Funds		(10,122)	4,579	22,013	63,520
Debt Service Fund					
Total Fund Balances	<u>\$ 22,081</u>	<u>\$ 2,810</u>	<u>\$ 4,579</u>	<u>\$ 22,013</u>	<u>\$ 63,520</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 330,569
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Amounts Reported for Governmental Activities in the Statement  
of Net Assets are Different Because:

Capital Assets Used in Governmental Activities of \$15,493,120	
Net of Accumulated Depreciation of \$2,445,697 are not Financial Resources and, Therefore, are not Reported in the Funds.	13,047,423
Assets Held For Sale	276,879
Short-Term and Long-Term Debt is not Due and Payable in the Current Period and, Therefore is not Reported in the Funds.	
Bond Obligations	(1,685,000)
Financing Obligations	<u>(2,016,799)</u>
Net Assets Of Governmental Activities	<u>\$ 9,953,072</u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
June 30, 2007  
(Continued)

Ambulance Fund	Old Courthouse Restoration Fund	County of Rowan Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 57,342	\$	\$ 145,420	\$ 12,804	\$ 330,569
\$ 57,342	\$ 0	\$ 145,420	\$ 12,804	\$ 330,569
\$ 6,577	\$	\$	\$	\$ 22,616
50,765			12,804	18,974
		145,420		143,559
				145,420
\$ 57,342	\$ 0	\$ 145,420	\$ 12,804	\$ 330,569

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

**ROWAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Community Development Block Grant Fund
<b>REVENUES</b>				
Taxes	\$ 2,779,866	\$ 687,102	\$	\$
In Lieu Tax Payments	95,823	91,998		
Excess Fees	101,010			
Licenses and Permits	147,693			
Intergovernmental	1,069,046	1,120,699	594,926	122,013
Charges for Services			38,064	
Miscellaneous	71,500	400,169	28,097	
Interest	3,621	3,265	309	
Total Revenues	4,268,559	2,303,233	661,396	122,013
<b>EXPENDITURES</b>				
General Government	1,133,766			
Protection to Persons and Property	741,453		1,046,601	
General Health and Sanitation	197,821			
Social Services	62,565			
Recreation and Culture	176,215			
Roads		1,879,664		
Debt Service	313,298	581,592		
Capital Projects	161,605	1,200		
Administration	939,582	366,218	226,346	
Total Expenditures	3,726,305	2,828,674	1,272,947	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	542,254	(525,441)	(611,551)	122,013
<b>Other Financing Sources (Uses)</b>				
Bond Proceeds				
Financing Obligation Proceeds		276,879		
Transfers From Other Funds	614,909	554,321	733,538	
Transfers To Other Funds	(1,554,392)	(376,584)	(125,807)	(100,000)
Total Other Financing Sources (Uses)	(939,483)	454,616	607,731	(100,000)
Net Change in Fund Balances	(397,229)	(70,825)	(3,820)	22,013
Fund Balances - Beginning (Restated)	419,310	73,635	8,399	
Fund Balances - Ending	\$ 22,081	\$ 2,810	\$ 4,579	\$ 22,013

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
For The Year Ended June 30, 2007  
(Continued)

Local Government Economic Development Fund	Ambulance Fund	Old Courthouse Restoration Fund	County of Rowan Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$	\$ 1,079	\$ 3,468,047
					187,821
					101,010
					147,693
	206,679	150,000		228,684	3,492,047
	971,537				1,009,601
	18,395			1,000	519,161
21,120	506	4,401	4,733	1,602	39,557
<u>21,120</u>	<u>1,197,117</u>	<u>154,401</u>	<u>4,733</u>	<u>232,365</u>	<u>8,964,937</u>
					1,133,766
	921,208			222,011	2,931,273
				24,815	222,636
					62,565
					176,215
				50,491	1,930,155
		23,000	126,729		1,044,619
		1,475,859			1,638,664
	366,248			116,253	2,014,647
<u></u>	<u>1,287,456</u>	<u>1,498,859</u>	<u>126,729</u>	<u>413,570</u>	<u>11,154,540</u>
21,120	(90,339)	(1,344,458)	(121,996)	(181,205)	(2,189,603)
		675,000			675,000
					276,879
	143,600	113,326	126,550	37,864	2,324,108
<u></u>	<u></u>	<u>(138,326)</u>	<u>(744)</u>	<u>(28,255)</u>	<u>(2,324,108)</u>
	143,600	650,000	125,806	9,609	951,879
21,120	53,261	(694,458)	3,810	(171,596)	(1,237,724)
42,400	4,081	694,458	141,610	184,400	1,568,293
<u>\$ 63,520</u>	<u>\$ 57,342</u>	<u>\$ 0</u>	<u>\$ 145,420</u>	<u>\$ 12,804</u>	<u>\$ 330,569</u>

The accompanying notes are an integral part of the financial statements.



ROWAN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

ROWAN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -  
MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (1,237,724)
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,707,847
Depreciation Expense	(404,976)
Assets Disposed of, Net Book Value	(77,761)

Purchase of Asset Held for Resale	276,878
Disposal of Asset Held for Sale	(260,000)

The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds. These Transactions, However, Have no Effect on Net Assets.

Financing Obligation	(276,879)
Bond Proceeds	(675,000)

Lease and Bond Principal Payments are Expensed in the Governmental Funds as a use of Current Financial Resources. These Transactions, However, Have no Effect on Net Assets.

Financing Obligations	515,000
Bond Payments	320,000

Change in Net Assets of Governmental Activities	<u><u>\$ 887,385</u></u>
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ROWAN COUNTY  
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH  
BASIS

June 30, 2007

ROWAN COUNTY  
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH  
BASIS

June 30, 2007

	Jail Canteen Fund
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 18,676
Total Current Assets	<u>18,676</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	
Less Accumulated Depreciation	17,540
Total Noncurrent Assets	<u>17,540</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	17,540
Unrestricted	18,676
Total Net Assets	<u><u>\$ 36,216</u></u>

The accompanying notes are an integral part of the financial statements.

ROWAN COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

**ROWAN COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	Jail Canteen Fund
<b>Operating Revenues</b>	
Canteen Receipts	\$ 103,917
Total Operating Revenues	<u>103,917</u>
<b>Operating Expenses</b>	
Cost of Sales	54,091
Educational and Recreational	28,628
Depreciation	3,600
Miscellaneous	2,670
Total Operating Expenses	<u>88,989</u>
Operating Income	<u>14,928</u>
<b>Nonoperating Revenues (Expenses)</b>	
Inmate Refunds	<u>(16,482)</u>
Total Nonoperating Revenues (Expenses)	<u>(16,482)</u>
Change In Net Assets	(1,554)
Total Net Assets - Beginning	<u>37,770</u>
Total Net Assets - Ending	<u><u>\$ 36,216</u></u>

The accompanying notes are an integral part of the financial statements.

**ROWAN COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**ROWAN COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	<u>Jail Canteen Fund</u>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 103,917
Cost of Sales	(54,091)
Educational and Recreational	(28,628)
Miscellaneous	(2,670)
Net Cash Provided By Operating Activities	<u>18,528</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Refunds on Accounts	(16,482)
Net Cash Provided (Used) By Noncapital Financing Activities	(16,482)
Net Increase (Decrease) in Cash and Cash Equivalents	2,046
Cash and Cash Equivalents - July 1, 2006	<u>16,630</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 18,676</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	 <b>Jail Canteen Fund</b>
Operating Income	\$ 14,928
Depreciation	<u>3,600</u>
Net Cash Provided By Operating Activities	<u><u>\$ 18,528</u></u>

The accompanying notes are an integral part of the financial statements.



ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Rowan County should include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

*The Rowan County Extension Board*

Rowan County Extension Board is a legally separate entity established to operate as the Extension Board. The Rowan County Fiscal Court Judge Executive appoints all of the Board's directors. Management should include the Rowan County Extension Board as a discretely presented component unit, but has elected to exclude the Board from presentation in the County's financial statements. However, separate financial statements can be obtained by contacting:

Martha Perkins  
Family Consumer Sciences Agent  
627 East Main Street  
Morehead, KY 40351

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

**B. Reporting Entity (Continued)**

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

*The County of Rowan Properties Corporation*

The fiscal court appoints the voting majority of the County of Rowan Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the County of Rowan Properties Corporation.

**C. Rowan County Elected Officials**

Kentucky Law provides for election of the below officials from the geographic area constituting Rowan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rowan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Property Tax Calendar**

Generally, and accept as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale April 30 following the delinquency date.

**E. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities; the difference between the two is being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The primary government reports the following major governmental funds:

*General Fund* - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

*Road Fund* - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

*Jail Fund* - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

*Community Development Block Grant Fund* - The purpose of this fund is to account for funds earmarked for community development. The primary source of revenue for this fund is from the state.

*Local Government Economic Development Fund* - The purpose of this fund is to account for funds earmarked for economic development. The primary source of revenue for this fund is from the state. Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund

*Ambulance Fund* - The purpose of this fund is to account for ambulance service expenses of the county. The primary sources of revenue for this fund are charges for services, grant funds from state and federal governments, and transfers in from the City of Morehead, Kentucky to help fund the service. The funds are used to maintain and operate an ambulance service.

*Old Courthouse Restoration Fund* - The purpose of this fund is to account for the restoration and renovation of the old Rowan County courthouse. The W. Paul and Lucille Caudill Little Foundation donated a grant for \$1,000,000 dollars to the County for this project and the Fiscal Court matched this amount with a \$1,000,000 lease agreement with the Kentucky Area Development District Financing Trust.

*The County of Rowan Properties Corporation* - The purpose of this fund is to account for the activities of the Rowan Properties Corporation, a blended component unit of the county. The Rowan Properties Corporation issued debt to build a detention facility, for road paving, and the purchase of an abuse center. The Rowan Properties Corporation has entered into a contract, lease, and option with the County. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-Wide and Fund Financial Statements (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, Hazmat 8 Fund, Forest Fire Fund, Disaster and Emergency Services Fund, and the Hazard Mitigation Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Community Development Block Grant Fund, Local Government Economic Development Fund, Ambulance Fund, Local Government Economic Assistance Fund, State Grants Fund, Hazmat 8 Fund, Forest Fire Fund, and the Disaster and Emergency Services Fund are presented as Special Revenue Funds. Special Revenue Funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund

The County of Rowan Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund

The Old Courthouse Restoration Fund is presented as a capital projects fund. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the county's enterprise fund is commissary sales. Operating expenses for the enterprise fund include cost of sales, education and recreational expenditures, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements of Interpretations.

The primary government reports the following major proprietary fund:

*Jail Canteen Fund* – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

**F. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Category</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance cost when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

**I. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**J. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the County of Rowan Properties Fund (Debt Service Fund). The Governor's Office for Local Development does not require this fund to be budgeted.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies (Continued)**

**K. Jointly Governed Organization**

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating government. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned. The Morehead-Rowan County Airport Board also meets the above criteria and is therefore disclosed as an organization jointly governed by the City of Morehead and Rowan County.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 3. Long-term Debt

Governmental Activities:

A. County of Rowan Properties Corporation – Detention Center

On September 1, 1997, the County of Rowan Properties Corporation issued \$1,285,000 of revenue bonds for the defeasance of the 1991 bond series issue. The 1991 bonds were originally issued to finance construction of the Rowan County Detention Center. The refunding bonds were dated September 1, 1997, with the requirement that semiannual interest payments be made on March 1 of each year commencing March 1, 1998. The agreement has a variable interest rate of 4.95 to 5.05 percent. The bonds will mature March 1, 2012. As of June 30, 2007, the principal amount outstanding was \$530,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 95,000	\$ 26,766
2009	100,000	21,968
2010	105,000	16,918
2011	110,000	11,616
2012	120,000	6,060
Totals	<u>\$ 530,000</u>	<u>\$ 83,328</u>

B. General Obligation Bonds – Road Improvements

On June 15, 1999, Rowan County issued \$2,035,000 of general obligation bonds for road improvements. The bonds require that semiannual interest and principal payments be made on June 1 and December 1 of each year commencing on December 1, 1999. One principal payment will be due on June 1 of each year commencing June 1, 2000. The agreement has a variable interest rate of 4.25 to 4.55 percent. The bonds will mature June 1, 2009. As of June 30, 2007, the principal amount outstanding was \$480,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 235,000	\$ 21,605
2009	245,000	11,148
Totals	<u>\$ 480,000</u>	<u>\$ 32,753</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

Note 3. Long-term Debt (Continued)

C. Financing Obligation – Airport Land Acquisition

Rowan County entered into a \$1,500,000 lease agreement with Kentucky Area Development Districts Financing Trust for airport land acquisition. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing December 1, 2000. One principal payment will be due on June 1 of each year commencing June 1, 2001. The lease agreement ends June 1, 2010. The agreement has a variable interest rate of 4.75 to 5.1 percent. The Morehead – Rowan County Airport Board made a resolution that they would provide funds to the Rowan County Fiscal Court to make these payments. The Morehead – Rowan County Airport Board's ability to provide this funding is contingent on the Transportation Cabinet's Kentucky Aviation Economic Development Fund continuing to provide annual assistance to them. The principal balance on the lease was \$530,000 as of June 30, 2007. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 170,000	\$ 27,030
2009	175,000	18,360
2010	185,000	9,435
Totals	<u>\$ 530,000</u>	<u>\$ 54,825</u>

D. Financing Obligation – Fire Truck Acquisition

Rowan County entered into a \$170,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the purchase of a fire truck. The lease requires that semiannual interest payments be made on December 1 and June 1 of each year commencing on June 1, 2002. The agreement has a variable interest rate of 3.9 to 4.2 percent. The lease agreement ends June 1, 2011. The principal on the lease was \$80,000 as of June 30, 2007. Lease payment for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 20,000	\$ 3,360
2009	20,000	2,520
2010	20,000	1,680
2011	20,000	840
Totals	<u>\$ 80,000</u>	<u>\$ 8,400</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 3. Long-term Debt (Continued)**

**E. Financing Obligation – Old Courthouse Restoration Project**

On March 1, 2005, Rowan County entered into a \$1,000,000 lease agreement with the Kentucky Area Development Districts Financing Trust for the restoration and renovation of the Old Rowan County Courthouse. The lease requires that semiannual interest payments be made on March 1 and September 1 of each year through March 1, 2024. One principal payment is due on September 1 of each year commencing on September 1, 2005. The agreement has a variable interest rate of 2.2 to 5.3 percent. The principal on the lease was \$935,000 as of June 30, 2007. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 35,000	\$ 45,183
2009	35,000	43,958
2010	35,000	42,558
2011	40,000	40,870
2012	40,000	39,070
2013-2017	230,000	165,500
2018-2022	300,000	99,120
2023-2024	220,000	17,755
Totals	<u>\$ 935,000</u>	<u>\$ 494,014</u>

**F. Financing Obligation – Road Equipment**

Rowan County entered into a \$260,000 lease agreement with Kentucky Association of Counties for the purchase of road equipment to be paid in full on July 20, 2011. The lease requires that annual principal payments be made on July 20 of each year commencing July 20, 2006. Interest payments are required to be paid monthly commencing on June 20, 2006. The agreement has an interest rate of 3.51 percent. The principal balance on the lease was \$194,920 as of June 30, 2007. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 45,000	\$ 5,400
2009	50,000	3,656
2010	50,000	1,901
2011	49,920	149
Totals	<u>\$ 194,920</u>	<u>\$ 11,106</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 3. Long-term Debt (Continued)**

**G. Revenue Bonds– Old Courthouse Restoration**

Rowan County entered into a \$675,000 agreement with the Kentucky Area Development District Financing Trust for the renovation of the old courthouse. This agreement requires annual principal and interest payments due November 1 of each year commencing November 1, 2007. The agreement has a variable interest rate. The principal balance was \$675,000 as of June 30, 2007. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest And Fees
2008	\$ 20,000	\$ 45,183
2009	25,000	43,958
2010	25,000	42,558
2011	25,000	40,870
2012	25,000	39,070
2013-2017	145,000	110,585
2018-2022	185,000	76,515
2023-2026	225,000	3,188
Totals	<u>\$ 675,000</u>	<u>\$ 401,927</u>

**H. Changes in Long-Term Debt**

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<b><u>Governmental Activities:</u></b>					
General Obligation &					
Revenue Bonds	\$ 1,330,000	\$ 675,000	\$ 320,000	\$ 1,685,000	\$ 350,000
Financing Obligations	1,994,920		255,000	1,739,920	270,000
Total Governmental Activities					
Long-term Liabilities	<u>\$ 3,324,920</u>	<u>\$ 675,000</u>	<u>\$ 575,000</u>	<u>\$ 3,424,920</u>	<u>\$ 620,000</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 4. Short-Term Debt**

- A. On April 6, 2006, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$260,000 with the Bank Of New York for a truck purchase project. The County purchased three heavy trucks for the county to use for one year; then they auctioned the trucks off to pay the outstanding principal of the lease. The agreement required one payment due March 1, 2007, with an interest rate of 3.75 percent. The principal balance of the agreement was paid in full as of June 30, 2007.
- B. On March 2, 2007, the Rowan County Fiscal Court entered into a lease agreement in the amount of \$276,879 with the Bank Of New York for a truck purchase project. The County purchased three heavy trucks for the county to use for the 2007 fiscal year. The trucks are to be auctioned off to pay the outstanding principal of the lease. The agreement requires one payment due by March 20, 2008, with an interest rate of 4.25 percent. As of June 30, 2007 the principal balance on the lease was \$276,879.
- C. In July 2006, Rowan County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$498,050 with principal being due in January 2007. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$3,403.

Short-Term liability activity for the year ended June 30, 2007, was as follows.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities</u>					
Financing Obligations	\$ 260,000	\$ 276,879	\$ 260,000	\$ 276,879	\$ 276,879
Total Governmental Activities					
Short-term Liabilities	<u>\$ 260,000</u>	<u>\$ 276,879</u>	<u>\$ 260,000</u>	<u>\$ 276,879</u>	<u>\$ 276,879</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 4,328,917	\$ 10,000	\$	\$ 4,338,917
Construction In Progress	1,339,278	1,660,627	(2,850,387)	149,518
Total Capital Assets Not Being Depreciated	5,668,195	1,670,627	(2,850,387)	4,488,435
Capital Assets, Being Depreciated:				
Buildings	4,084,876	2,791,887		6,876,763
Other Equipment	1,234,073	674,986	(28,700)	1,880,359
Vehicles and Equipment	926,210	16,000	(138,954)	803,256
Infrastructure	1,039,573	404,734		1,444,307
Total Capital Assets Being Depreciated	7,284,732	3,887,607	(167,654)	11,004,685
Less Accumulated Depreciation For:				
Buildings	(1,071,900)	(91,522)		(1,163,422)
Other Equipment	(529,317)	(155,808)	19,920	(665,205)
Vehicles and Equipment	(379,068)	(52,787)	69,973	(361,882)
Infrastructure	(150,329)	(104,859)		(255,188)
Total Accumulated Depreciation	(2,130,614)	(404,976)	89,893	(2,445,697)
Total Capital Assets, Being Depreciated, Net	5,154,118	3,482,631	(77,761)	8,558,988
Governmental Activities Capital Assets, Net	<u>\$ 10,822,313</u>	<u>\$ 5,153,258</u>	<u>\$ (2,928,148)</u>	<u>\$ 13,047,423</u>
<u>Proprietary Activities</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 26,500	\$	\$	\$ 26,500
Total Capital Assets Being Depreciated	26,500			26,500
Less Accumulated Depreciation For:				
Vehicles and Equipment	(5,360)	(3,600)		(8,960)
Total Accumulated Depreciation	(5,360)	(3,600)		(8,960)
Proprietary Activities Capital Assets, Net	<u>\$ 21,140</u>	<u>\$ (3,600)</u>	<u>\$ 0</u>	<u>\$ 17,540</u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 5. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

*Governmental Activities*

General Government	\$ 81,081
Protection to Persons and Property	153,334
General Health And Sanitation	2,232
Roads, Including Depreciation of General Infrastructure Assets	<u>168,329</u>
Total Depreciation Expense – Governmental Activities	\$ <u>404,976</u>

*Business – Type Activities*

Jail Canteen	\$ <u>3,600</u>
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**Note 6. Interest on Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$123,712 of interest on financing obligations and \$61,986 in interest on bonds.

**Note 7. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**ROWAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 8. Deferred Compensation**

The Rowan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road Suite #110, Frankfort, KY 40601-8862.

**Note 9. Insurance**

For the fiscal year ended June 30, 2007, Rowan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Doves Building Project**

The Rowan County Fiscal Court received a Community Development Block Grant in the amount of \$500,000 for the purpose of assisting D.O.V.E.S. of Gateway purchase a building to be used as an abuse shelter. \$480,000 of the grant proceeds were used to purchase the building and the remainder was designated for planning and administration of the grant. The purchase price of the building was \$575,700. D.O.V.E.S. of Gateway obtained a bank loan for the rest of the funds needed to purchase the building and make needed improvements to the property. The deed of conveyance giving the Rowan County Fiscal Court legal title to the property stipulates that title to the property will be conveyed to D.O.V.E.S. of Gateway six (6) months after the closeout of the Community Development Block Grant. As of June 30, 2007 the property has not been conveyed to D.O.V.E.S of Gateway.



ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 11. Commitments And Contingencies**

The Rowan County Fiscal Court paid \$20,000 in the June 30, 2007 fiscal year securing the purchase of 84 Lumber Company property. On July 17, 2007 the Rowan County Fiscal Court purchased the 84 Lumber property in the amount of \$379,168. This property was converted into the new county garage.

**Note 12. Construction In Progress**

Construction In Progress consisted of the following projects as of June 30, 2007:

New County Garage (84 Lumber)	\$ 20,000
New DES Building	<u>129,518</u>
Total Construction In Progress	<u>\$ 149,518</u>

**Note 13. Related Party Note**

The County entered into the following related party transactions during the 2007 fiscal year:

The county expended \$150 to Caudill's Grocery, and \$2,370 to Caudill's Excavating. Caudill's Excavating and Caudill's Grocery are both owned by the brother of Nick Caudill, a magistrate of the Rowan County Fiscal Court.

The county sold salt to the following elected officials' family in the following amounts:

Nathan Pecco – Son of Anna Pecco, Magistrate	Salt	\$ 1,157
--	------	----------

**Note 14. Restatement of Governmental Activities – Net Assets**

The Rowan County Fiscal Court has restated its June 30, 2006 Governmental Activities Net Assets and Fund Balances, where applicable, as follows to retroactively capitalize construction in progress.

Net Assets at June 30, 2006 (as previously reported)	\$ 8,988,877
Adjustment for General Fund Prior Year	
Voided Checks	600
Adjustment for Road Fund Prior Year	
Voided Checks	66,377
Adjustment for Jail Fund Prior Year	
Voided Checks	2,075
Adjustment for Ambulance Fund Prior Year	
Voided Checks	986
Adjustment for Old Courthouse Restoration Fund	
Prior Year Voided Checks	486
Adjustment for Accumulated Depreciation to	
Correct Prior Year Depreciation Taken in excess	
Of the Assets Useful Life	6,069
Miscellaneous Adjustment to Properties Corporation Fund	<u>217</u>
Net Assets June 30, 2006 (as restated)	<u>\$ 9,065,687</u>

**ROWAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2007**

**ROWAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

<b>GENERAL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 2,708,500	\$ 2,743,392	\$ 2,779,866	\$ 36,474
In Lieu Tax Payments	82,000	82,000	95,823	13,823
Excess Fees	32,270	98,079	101,010	2,931
Licenses and Permits	188,300	188,300	147,693	(40,607)
Intergovernmental	457,560	1,249,788	1,069,046	(180,742)
Miscellaneous	99,000	104,350	71,500	(32,850)
Interest	4,000	4,000	3,621	(379)
Total Revenues	<u>3,571,630</u>	<u>4,469,909</u>	<u>4,268,559</u>	<u>(201,350)</u>
<b>EXPENDITURES</b>				
General Government	1,109,033	1,176,175	1,133,766	42,409
Protection to Persons and Property	241,902	763,519	741,453	22,066
General Health and Sanitation	199,605	249,446	197,821	51,625
Social Services	44,500	69,503	62,565	6,938
Recreation and Culture	188,656	182,267	176,215	6,052
Debt Service	299,030	313,710	313,298	412
Capital Projects		163,605	161,605	2,000
Administration	779,436	984,568	939,582	44,986
Total Expenditures	<u>2,862,162</u>	<u>3,902,793</u>	<u>3,726,305</u>	<u>176,488</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	<u>709,468</u>	<u>567,116</u>	<u>542,254</u>	<u>(24,862)</u>
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			614,909	614,909
Transfers To Other Funds	(823,468)	(823,468)	(1,554,392)	(730,924)
Total Transfers & Other Financing Sources (Uses)	<u>(823,468)</u>	<u>(823,468)</u>	<u>(939,483)</u>	<u>(116,015)</u>
Net Changes in Fund Balance	(114,000)	(256,352)	(397,229)	(140,877)
Fund Balance - Beginning (Restated)	<u>114,000</u>	<u>419,963</u>	<u>419,310</u>	<u>(653)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 163,611</u>	<u>\$ 22,081</u>	<u>\$ (141,530)</u>

ROWAN COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2007  
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 660,000	\$ 675,443	\$ 687,102	\$ 11,659
In Lieu of Tax	64,000	91,998	91,998	0
Intergovernmental	1,093,000	1,132,298	1,120,699	(11,599)
Miscellaneous	241,000	372,766	400,169	27,403
Interest	500	500	3,265	2,765
Total Revenues	2,058,500	2,273,005	2,303,233	30,228
<b>EXPENDITURES</b>				
Roads	1,420,920	1,952,454	1,879,664	72,790
Debt Services	573,223	581,807	581,592	215
Capital Projects		1,200	1,200	0
Administration	369,026	384,103	366,218	17,885
Total Expenditures	2,363,169	2,919,564	2,828,674	90,890
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(304,669)	(646,559)	(525,441)	121,118
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds			276,879	276,879
Transfers From Other Funds	89,669	89,669	554,321	464,652
Transfers To Other Funds			(376,584)	(376,584)
Total Transfers & Other Financing Sources (Uses)	89,669	89,669	454,616	364,947
Net Changes in Fund Balance	(215,000)	(556,890)	(70,825)	486,065
Fund Balance - Beginning (Restated)	215,000	281,377	73,635	(207,742)
Fund Balance - Ending	\$ 0	\$ (275,513)	\$ 2,810	\$ 278,323

ROWAN COUNTY  
 BUDGETARY COMPARISON SCHEDULES  
 Required Supplementary Information - Modified Cash Basis  
 For The Year Ended June 30, 2007  
 (Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 778,700	\$ 780,900	\$ 594,926	\$ (185,974)
Charges for Services	40,900	40,900	38,064	(2,836)
Miscellaneous	27,000	34,531	28,097	(6,434)
Interest	50	50	309	259
Total Revenues	846,650	856,381	661,396	(194,985)
<b>EXPENDITURES</b>				
Protection to Persons and Property	978,064	1,062,965	1,046,601	16,364
Debt Service	126,515	125,807	125,807	0
Administration	257,586	233,353	226,346	7,007
Total Expenditures	1,362,165	1,422,125	1,398,754	23,371
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(515,515)	(565,744)	(737,358)	(171,614)
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	515,515	515,515	733,538	218,023
Total Transfers & Other Financing Sources (Uses)	515,515	515,515	733,538	218,023
Net Changes in Fund Balance		(50,229)	(3,820)	46,409
Fund Balance - Beginning (Restated)		8,399	8,399	0
Fund Balance - Ending	\$ 0	\$ (41,830)	\$ 4,579	\$ 46,409

ROWAN COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Required Supplementary Information - Modified Cash Basis  
For The Year Ended June 30, 2007  
(Continued)

	COMMUNITY DEVELOPMENT BLOCK GRANT			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$	\$	\$ 122,013	\$ 122,013
Total Revenues			122,013	122,013
EXPENDITURES				
Total Expenditures				0
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			122,013	122,013
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(100,000)	(100,000)
Total Transfers & Other Financing Sources (Uses)			(100,000)	(100,000)
Net Changes in Fund Balance			22,013	22,013
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 22,013	\$ 22,013

ROWAN COUNTY  
 BUDGETARY COMPARISON SCHEDULES  
 Required Supplementary Information - Modified Cash Basis  
 For The Year Ended June 30, 2007  
 (Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$	\$ 21,120	\$ 21,120	\$ 0
Total Revenues		21,120	21,120	0
<b>EXPENDITURES</b>				
Total Expenditures				0
Excess (Deficiency) of Revenues Total Expenditures		21,120	21,120	0
Net Changes in Fund Balance		21,120	21,120	
Fund Balance - Beginning	42,400	472,400	42,400	(430,000)
Fund Balance - Ending	\$ 42,400	\$ 493,520	\$ 63,520	\$ (430,000)

ROWAN COUNTY  
 BUDGETARY COMPARISON SCHEDULES  
 Required Supplementary Information - Modified Cash Basis  
 For The Year Ended June 30, 2007  
 (Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 198,000	\$ 205,995	\$ 206,679	\$ 684
Charges for Services	930,000	930,000	971,537	41,537
Miscellaneous	12,500	12,500	18,395	5,895
Interest	50	50	506	456
Total Revenues	1,140,550	1,148,545	1,197,117	48,572
<b>EXPENDITURES</b>				
Protection to Persons and Property	962,834	950,254	921,208	29,046
Administration	366,000	394,176	366,248	27,928
Total Expenditures	1,328,834	1,344,430	1,287,456	56,974
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(188,284)	(195,885)	(90,339)	105,546
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	188,284	188,284	143,600	(44,684)
Total Transfers & Other Financing Sources (Uses)	188,284	188,284	143,600	(44,684)
Net Changes in Fund Balance		(7,601)	53,261	60,862
Fund Balance - Beginning		3,101	4,081	980
Fund Balance - Ending	\$ 0	\$ (4,500)	\$ 57,342	\$ 61,842



ROWAN COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

**Budgetary Information**

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

Jail Fund	Expenditures	Other Financing Sources (Uses)
Budgetary Comparison Schedule	\$ 1,398,754	\$ 733,538
Transfer to PPC For Debt	<u>(125,807)</u>	<u>(125,807)</u>
Statement of Revenues, Expenditures, And Changes in Fund Balances - Modified Cash Basis	<u>\$ 1,272,947</u>	<u>\$ 607,731</u>

ROWAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information

June 30, 2007

ROWAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information

June 30, 2007

	Local Government Economic Assistance Fund	State Grants Fund	Hazmat 8 Fund	Forest Fire Fund	Hazard Mitigation Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 526	\$ 4,138	\$	\$	\$
Total Assets	<u>\$ 526</u>	<u>\$ 4,138</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>FUND BALANCES</b>					
Fund Balances:					
Unreserved:					
Special Revenue Funds	\$ 526	\$ 4,138			
Total Fund Balances	<u>\$ 526</u>	<u>\$ 4,138</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

ROWAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information

June 30, 2007

Disaster And Emergency Services Fund	Total Non-Major Governmental Funds
\$ 8,140	\$ 12,804
<u>\$ 8,140</u>	<u>\$ 12,804</u>

\$ 8,140	\$ 12,804
<u>\$ 8,140</u>	<u>\$ 12,804</u>

ROWAN COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH  
BASIS

Other Supplementary Information

For The Year Ended June 30, 2007

**ROWAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH**  
**BASIS**

**Other Supplementary Information**

**For The Year Ended June 30, 2007**

	Local Government Economic Assistance Fund	State Grants Fund	Hazmat 8 Fund	Forest Fire Fund
<b>REVENUES</b>				
Taxes	\$	\$	\$	\$ 1,079
Intergovernmental	53,572			
Miscellaneous				
Interest	285			
Total Revenues	<u>53,857</u>			<u>1,079</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property			172	1,604
General Health and Sanitation		24,815		
Roads	50,491			
Administration				
Total Expenditures	<u>50,491</u>	<u>24,815</u>	<u>172</u>	<u>1,604</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	3,366	(24,815)	(172)	(525)
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Transfers to Other Funds	(24,000)			
Transfers from Other Funds	1,216			523
Total Transfers & Other Financial Sources (Uses)	<u>(22,784)</u>			<u>523</u>
Net Change in Fund Balances	(19,418)	(24,815)	(172)	(2)
Fund Balances - Beginning	19,944	28,953	172	2
Fund Balances - Ending	<u>\$ 526</u>	<u>\$ 4,138</u>	<u>\$ 0</u>	<u>\$ 0</u>

ROWAN COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH  
 BASIS

Other Supplementary Information  
 For The Year Ended June 30, 2007  
 (Continued)

Disaster And Emergency Services Fund	Hazard Mitigation Fund	Total Non-Major Governmental Funds
\$	\$	\$
29,277	145,835	1,079
1,000		228,684
1,317		1,000
31,594	145,835	1,602
		232,365
78,655	141,580	222,011
		24,815
		50,491
116,253		116,253
194,908	141,580	413,570
(163,314)	4,255	(181,205)
	(4,255)	(28,255)
36,125		37,864
36,125	(4,255)	9,609
(127,189)		(171,596)
135,329		184,400
\$ 8,140	\$ 0	\$ 12,804

ROWAN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplemental Information

For the Year Ended June 30, 2007



**ROWAN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Fiscal Year Ended June 30, 2007

Program	CFDA Number	Pass-Through Grantor Number	Pass-Through Grant Amount
<b>U. S. Department of Commerce</b>			
Congressionally Identified Awards and Projects			
Passed Through East Kentucky Pride Inc.			
Pride Super Grant	11.469	Unknown	\$ 7,214
Total U.S. Department of Commerce Grants			<u>7,214</u>
<b>U. S. Department of Homeland Security</b>			
Passed Through State Department of			
Military Affairs			
Federal Emergency Management Assistance			
Ambulance Fund	97.044	Unknown	5,695
Federal Emergency Management Assistance			
Hazard Mitigation Project	97.044	Unknown	145,835
Homeland Security Grant Program			
Domestic Preparedness Equipment	97.004	Unknown	505,837
Disaster Grants - Public Assistance	97.036	Unknown	29,489
Total U.S. Department of Homeland Security Grants			<u>686,856</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$ 694,070</u></u>

ROWAN COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2007

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rowan County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

The Honorable Jim Nickell, Rowan County Judge/Executive  
The Honorable Clyde A. Thomas, Former Rowan County Judge/Executive  
Members of the Rowan County Fiscal Court

## Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the primary government of Rowan County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements wherein we presented an adverse opinion on the discretely presented component unit and have issued our report thereon dated December 20, 2007. Rowan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rowan County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness as described above.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Rowan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

December 20, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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The Honorable Jim Nickell, Rowan County Judge/Executive  
The Honorable Clyde A. Thomas, Former Rowan County Judge/Executive  
Members of the Rowan County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Rowan County Fiscal Court, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Rowan County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rowan County Fiscal Court's management. Our responsibility is to express an opinion on Rowan County Fiscal Court's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America: the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rowan County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rowan County Fiscal Court's compliance with those requirements.

In our opinion Rowan County Fiscal Court complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Rowan County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rowan County Fiscal Court's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rowan County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Kentucky Governor's Office for Local Development, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

December 20, 2007



ROWAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2007

**ROWAN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2007**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Rowan County Fiscal Court and an adverse opinion on the discretely presented component unit.
2. No significant control deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report.
3. No instances of noncompliance material to the financial statements of Rowan County were disclosed during the audit.
4. No significant control deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal award programs for Rowan County expresses a unqualified opinion.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C of this schedule.
7. The program tested as a major program includes: Homeland Security Grant Program Domestic Preparedness Equipment, (CFDA # 97.004).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Rowan County did not qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

STATE LAWS AND REGULATIONS

None.

SIGNIFICANT CONTROL DEFICIENCIES

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT**

None.

**D. PRIOR YEAR FINDINGS**

None.

ROWAN COUNTY  
CERTIFICATION OF COMPLIANCE –  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
AND DEVELOPMENT PROGRAMS

For The Fiscal Year Ended June 30, 2007

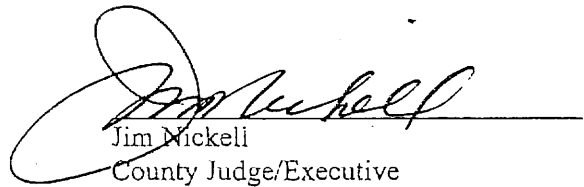
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

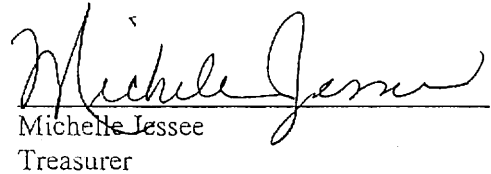
ROWAN COUNTY FISCAL COURT

For The Year Ended June 30, 2007

The Rowan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Jim Nickell  
County Judge/Executive



Michelle Jessee  
Treasurer